



**COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**  
**DIVISION OF INSURANCE**

*REPORT OF EXAMINATION OF THE*  
**MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION**  
**PROPERTY AND CASUALTY GROUP, INC.**

**Wakefield, Massachusetts**

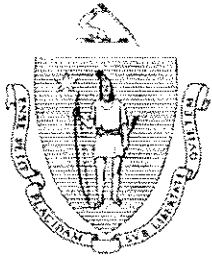
**As of June 30, 2015**

**EMPLOYERS ID NO. 04-3287895**

**MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
PROPERTY AND CASUALTY GROUP, INC.**

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**COMMONWEALTH OF MASSACHUSETTS**  
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AND BUSINESS REGULATION

**DANIEL R. JUDSON**  
COMMISSIONER OF INSURANCE

November 3, 2016

Honorable Daniel R. Judson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your specific instructions and by authority of Section 6 of Chapter 40M of Massachusetts General Laws ("MGL"), an examination has been made of the financial condition and affairs of

**MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION**  
**PROPERTY AND CASUALTY GROUP, INC.**

at its main administrative office located at 100 Quannapowitt Parkway, Wakefield, Massachusetts.  
The following report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

Massachusetts Education and Government Association Property and Casualty Group, Inc., (“MEGA”), was last examined by the Massachusetts Division of Insurance (“Division”) as of June 30, 2012. The examination covers the transactions of the Group from July 1, 2012, through June 30, 2015, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Group by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Group were considered in accordance with a modified risk-focused examination process.

In addition to a review of the financial condition of the Group, the examination included a review of the Group’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Group was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The books and records of the Group for the years 2013 and 2014 were audited by Shores, Tagman, Butler & Company, P.A., independent certified public accountants. In 2015 the audit was performed by Feeley and Driscoll, P. C. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective.

### **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

The previous report of examination noted Reinsurance Recoverable balances were not properly aged in accordance with Schedule F Part 4 of the Annual Statement and the examination found receivable balances that should have been non-admitted. The current examination notes similar findings for these two prior recommendations.

The prior examination found the Group’s loss reserves to be below the examination’s low point estimated reserve. The current examination finds the reserves to be above the low point but, it is

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
PROPERTY AND CASUALTY GROUP, INC.

recommended the Group increase their loss reserves to the mid-point selection as determined by the actuaries.

The Group's loss reserve discount rate during the prior examination was observed to be too high in the current interest rate environment. The current examination has determined the Group is using the proper discount factors published by the Internal Revenue Service.

## **HISTORY**

### **General**

The Massachusetts Education and Government Association Workers' Compensation Trust ("Trust") was approved for operation on June 30, 1990 by the Commissioner of Insurance and began operation on July 1, 1990 as a workers' compensation self-insurance group. The Trust was originally formed under the self-insurance provisions of MGL Chapter 152.

On October 4, 1995, the Trust was reorganized as a not-for-profit corporation known as Massachusetts Education and Government Association Workers' Compensation Group, Inc. The new corporation assumed all of the assets, liabilities, and obligations as successor-in-interest of the Trust. The Internal Revenue Service granted tax-exempt status to the Group.

On July 1, 2003, the workers' compensation group merged with the newly formed Massachusetts Education and Government Association Property and Casualty Group, Inc. This successor corporation was formed under MGL Chapter 40M, establishing a public entity property casualty group. This change allowed MEGA to offer multi-line insurance coverage in the property and liability area to public sector entities. In response to members demand, on July 1, 2007, MEGA began offering property and liability insurance. Effective July 1, 2011 the Group decided to exit the property and liability business to focus their efforts exclusively on workers compensation insurance.

## **MANAGEMENT AND CONTROL**

According to the bylaws, the affairs of the Group shall be managed by the Board of Directors ("Board"), who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the articles of organization or the bylaws. To assist in the management of the Group, the Board of Directors shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The Board shall have the power to adopt and issue rules, regulations, policies and procedures which shall be binding upon the members and the Administrator.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
PROPERTY AND CASUALTY GROUP, INC.

Annual Meeting

According to the bylaws as amended, the annual meeting of the members shall be held on the fourth Thursday in October of each year or, at such other time as determined by the Board of Directors.

Board of Directors

The Board of Directors shall consist of not fewer than three or more than eleven directors with the number determined at each annual meeting by resolution of the members. The Board of Directors shall be divided as evenly as possible into three groups so that there will be staggered terms of office for each group of directors. Each director holds office for a term of three years. Upon expiration or resignation, his or her successor is elected at the next annual meeting.

The members of the Board of Directors as of June 30, 2015 were as follows:

<u>Director</u>	<u>Professional Affiliation</u>
Melanie Hagman	Business Manager – Shawsheen Valley Regional VTSD
Kurtis Johnson	Director Business Operations – Blackstone Valley Vocational Technical RSD
Kirsteen Leveillee	Business Manager – South Middlesex Regional Vocational Technical School
William Ross	Town Manager – Town of Mansfield
Mark Webber	Town Administrator – Town of West Stockbridge
Martha White	Town Administrator – Town of Natick
Greg Zammuto	Director of Finance and Operations – SEEM Collaborative

The bylaws specify regular meetings of the Board of Directors shall be held not less than quarterly. At any meeting of the Board, not less than one-half of the directors then in office shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board of Directors held during the examination period and the meetings were held quarterly. All directors shall be individuals who are affiliated with (as employees, directors, trustees, or officers) members in good standing of the Group and shall be a resident of the Commonwealth.

Officers

Pursuant to the bylaws the officers of the Group shall be elected by the Board and there shall be a president, vice president, treasurer, clerk and such other officers, if any as the Board may from time to time designate. The officers shall be elected annually by the directors at their first meeting following the annual meeting of the members. The Group may also have such agents, if any, as the directors may appoint. The president must be a director.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
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The elected officers and their respective titles at June 30, 2015 follows:

<u>Name of Officer</u>	<u>Title</u>
Melanie Hagman	President
Mark Webber	Vice President
Kurtis Johnson	Treasurer
Tammy Smith	Clerk

Administrator

During the operating period under review, the Group by a written administrative service agreement engaged Cannon Cochran Management Services, Inc. (the “Administrator” or “CCMSI”), to perform and manage the day-to-day activities of the Group.

**TERRITORY AND PLAN OF OPERATION**

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

**REINSURANCE**

The Group maintains an excess workers compensation and employers liability insurance policy with an unaffiliated insurer. Under this policy, the Group’s losses at June 30, 2015, in excess of \$1,000,000 for each individual accident or employee will be covered by the policy in accordance with statutory limits.

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
PROPERTY AND CASUALTY GROUP, INC.

**FINANCIAL STATEMENTS**

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Group with the Division and present the financial condition of the Group for the period ending June 30, 2015. The financial statements are the responsibility of the Group's management.

Statement of Assets, Liabilities, Surplus and Other Funds as of June 30, 2015

Statement of Income as of June 30, 2015

Statement of Capital and Surplus for the Year Ended June 30, 2015

Reconciliation of Capital and Surplus for the Three-Year Period Ended June 30, 2015



**Massachusetts Education and Government Association**  
**Property and Casualty Group, Inc.**  
Statement of Assets, Liabilities, Capital and Surplus  
As of June 30, 2015

<b>Assets</b>	As Reported by the Group
Bonds	\$ 17,819,305
Cash and short-term investments	1,831,870
Subtotals, cash and invested assets	<u>19,651,175</u>
Investment income due and accrued	108,099
Reinsurance: Amounts recoverable from reinsurers	112,651
Aggregate write-ins for invested assets:	
Other Receivables	1,308
Total Assets	<u><u>\$ 19,873,233</u></u>
 <b>Liabilities</b>	
Losses	\$ 17,984,853
Loss adjustment expenses	3,239,455
Advance premiums	564,621
Aggregate write-ins for liabilities:	
Time Value of Money Discount	<u>(2,493,571)</u>
Total Liabilities	<u>19,295,358</u>
Gross paid in and contributed surplus	4,700,360
Unassigned funds (surplus)	<u>(4,122,485)</u>
Surplus as regards policyholders	<u>577,875</u>
Total Liabilities, Capital, and Surplus	<u><u>\$ 19,873,233</u></u>

**Massachusetts Education and Government Association**  
**Property and Casualty Group, Inc.**  
Statement of Income  
For the Year Ended June 30, 2015

	As Reported by the Group
Premiums earned	\$ 12,845,769
Deductions:	
Losses incurred	9,821,156
Loss expenses incurred	1,788,128
Other underwriting expenses incurred	2,581,953
Aggregate write-ins for underwriting deductions:	
Time Value of Money Discount	(132,131)
Total underwriting deductions	14,059,106
Net underwriting gain (loss)	(1,213,337)
Net investment income earned	387,020
Net realized capital gains (losses)	13,621
Net investment gain (loss)	400,641
Net gain (loss) from agents' or premium balances charged off	4,919
Total other income	4,919
Net income before dividends to policyholders and before federal and foreign income taxes	(807,777)
Dividends to policyholders	0
Net income, after dividends to policyholders but before federal and foreign income taxes	(807,777)
Federal and foreign income taxes incurred	0
Net Income	\$ (807,777)

**Massachusetts Education and Government Association**  
**Property and Casualty Group, Inc.**  
Statement of Capital and Surplus  
For the Year Ended June 30, 2015

	<u>As Reported by the Group</u>
Surplus as regards policyholders, June 30, 2014	\$ 337,355
Net income	(807,777)
Change in nonadmitted assets	115,307
Surplus adjustments: Paid in	<u>932,990</u>
Change in surplus as regards policyholders for the year	<u>240,520</u>
Surplus as regards policyholders, June 30, 2015	<u><u>\$ 577,875</u></u>

**Massachusetts Education and Government Association**  
**Property and Casualty Group, Inc.**  
Reconciliation of Capital and Surplus  
For the Three Year Period Ended June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders,			
June 30, prior year	\$ 337,355	\$ 24,718	\$ (639,199)
Net income	(807,777)	(1,244,752)	(929,874)
Change in net unrealized capital gains or (losses)		26,138	73,926
Change in nonadmitted assets	115,307	57,117	(199,536)
Surplus adjustments: Paid in	<u>932,990</u>	<u>1,474,134</u>	<u>1,719,401</u>
Net change in capital and surplus for the year	<u>240,520</u>	<u>312,637</u>	<u>663,917</u>
Capital and surplus, June 30, current year	<u><u>\$ 577,875</u></u>	<u><u>\$ 337,355</u></u>	<u><u>\$ 24,718</u></u>

MASSACHUSETTS EDUCATION AND GOVERNMENT ASSOCIATION  
PROPERTY AND CASUALTY GROUP, INC.

**ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING  
FROM THE EXAMINATION**

There have been no changes to the amounts reported in the Annual Statement.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Amounts Recoverable from Reinsurers \$112,651

Review of the receivables found balances overdue in excess of 90 days which requires the balances to be non-admitted for examination purposes. In addition the examination found the Group's subsequent receipts of the balances to be \$73,875 or \$38,776 less than the Annual Statement amount. It is recommended that the Group properly age the reinsurance recoverable in accordance with Schedule F Part 4 of the Annual Statement.

Losses \$ 17,984,853  
Loss Adjustment Expenses \$ 3,239,455

The Division has relied on the analysis performed by the Group's actuary, Milliman, to review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of MEGA as of June 30, 2015. The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

MEGA held net loss and LAE reserves of \$21.2 million as of June 30, 2015. These reserves are net of anticipated salvage and subrogation and ceded reinsurance.

Milliman's actuarial review utilized various actuarial methodologies to analyze MEGA's accident year paid and incurred loss data at annual valuations through June 30, 2015. Milliman's actuarial central estimate of the net loss and LAE reserves is \$24.6 million. Milliman also calculated a range of estimates that it considered reasonable and acceptable. The overall reasonable range of estimates extends from \$21.1 million to \$28.6 million.

The table below summarizes a comparison of Milliman's range of reasonable estimates for Loss and LAE Reserves to the Company's net carried Loss and LAE Reserves as of June 30, 2015.

	Low Point of Range	Selected Estimate	High Point of Range
Milliman Estimate	\$21,099,298	\$24,640,077	\$28,645,075
Company Carried	21,224,308	21,224,308	21,224,308
Company Carried Over / (Under) Milliman	125,010	(3,415,769)	(7,420,767)

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PROPERTY AND CASUALTY GROUP, INC.

**SUBSEQUENT EVENTS**

Subsequent to June 30, 2015, there were no material items that came to our attention for inclusion in the report of examination.

**SUMMARY OF RECOMMENDATIONS**

It is recommended that MEGA properly age their Reinsurance Recoverable balances in accordance with Annual Statement instructions and properly complete the applicable parts of Schedule F of the Annual Statement.

It is recommended that MEGA increase their loss reserves to the actuarial selected mid-point of the actuary's reserve range.

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**SIGNATURE PAGE**

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Group to the Division's examiner during the examination.

A handwritten signature in cursive script, reading "Kenneth R. Plumb", is written over a horizontal line.

Kenneth R. Plumb, CPA, CFE  
Examiner-in-Charge  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance